

**ALABAMA DEPARTMENT OF MENTAL HEALTH
AND MENTAL RETARDATION (DMH/MR)**

Administrative Division
Finance Bureau

DMH/MR AUDIT GUIDELINES

For Audits by Examiners of Public Accounts,
CPA's and CPA Firms

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**Amended September 2004, for Fiscal
Years ending after December 31,
2003.**

AUDIT GUIDELINES

For Audits by the Examiners of Public
Accounts, CPA's, and CPA Firms

1. **Purpose.** This document establishes guidelines for audit, records retention, audit procurement, report due dates, contract compliance, questioned amounts or practices, and disallowed amounts for entities that receive or expend funds from or through the State of Alabama, Department of Mental Health and Mental Retardation (hereafter referred to as DMH/MR). This document also implements the Single Audit Act of 1996 (Public Law 104-156), as amended, and the related OMB Circular A-133 (as amended) for audits of Federal financial assistance.
2. **Applicability and Effective Date.** This document applies to entities that include these Guidelines in any of their DMH/MR contracts, grants, agreements, and/or Provider Agreements. Except as otherwise stated, these Guidelines supersede and replace all previous DMH/MR Guidelines and is effective for years **ending after December 31, 2003.**
3. **Authority.** The authority for DMH/MR to establish and ensure compliance of these Guidelines includes The Single Audit Act of 1996, OMB Circular A-133, and the Code of Alabama, 1975, Sections 22-50-9, 22-50-11, and 22-50-23.

The Single Audit Act and OMB Circular A-133 require recipients (i.e., DMH/MR) to determine that subrecipients expending \$300,000 (for fiscal years ending before December 31, 2003) or more in Federal awards have an audit made according to the Circular's requirements. **For fiscal years ending after December 31, 2003, this threshold was raised to \$500,000 as published in the Federal Register on June 27, 2003. OMB Circular A-133 prohibits early implementation of the change in threshold.** Among other things, DMH/MR is required (as recipient) to establish a system that ensures timely compliance with applicable laws and regulations, issue a management decision on audit findings and corrective action plans within six months after receipt of the subrecipient's reports, and ensure that the stated corrective action is taken.

4. **Audit Requirements.** Each entity that expends \$100,000 or more of Federal financial assistance or other funds obtained from/through DMH/MR during a fiscal year is required to have an audit performed at its own expense. Such audits shall be performed by an independent auditor (i.e., a CPA, a CPA firm, or the Alabama Department of Examiners of Public Accounts). See Section 10 for due dates and Section 21 for a chart summarizing DMH/MR Audit Requirements.
 - a. **Not-for-Profit Entities and 310 Boards:**
 - (1) Non-federal entities that **expend \$500,000 or more in a year in Federal awards (excluding Medicaid funding) shall have a Single Audit or Program Specific Audit** conducted for that year in accordance with OMB Circular A-133 issued June 30, 1997, and any subsequent revision or

amendment. The audit report shall also include a **DMH/MR Contract Compliance Report** as described in Section 12.

- (2) Non-federal entities that **expend less than \$500,000 in Federal awards, but expend \$300,000 or more of any combination of funds (including Medicaid funding) obtained through DMH/MR** during a fiscal year, shall have an audit for that year that is in accordance with Government Auditing Standards ("**Yellow Book**"). The audit report shall also include a **DMH/MR Contract Compliance Report** as described in Section 12.

- (3) Any non-for-profit entity that expends **\$100,000 or more** of any type of funds obtained through DMH/MR during a fiscal year shall have an audit for compliance (see Section 12) with the DMH/MR contract, grant, or agreement, Provider Agreement (if any), and applicable Federal and State, laws and regulations, and DMH/MR policies.

- b. **310 Boards.** All 310 Boards shall submit, **at a minimum**, an audit in accordance with Government Auditing Standards ("**Yellow Book**"). **310 Board audit reports must first be submitted to the State of Alabama Examiners of Public Accounts for review and release.** These audits shall be in compliance with guidelines published by the State of Alabama, Examiners of Public Accounts (Section 6a) and the DMH/MR Audit Guidelines.

In addition, 310 Boards are responsible for monitoring their subrecipients. This includes assuring that their subrecipients that expend \$500,000 or more in a year in Federal awards (excluding Medicaid funding) shall have a Single Audit or Program Specific Audit conducted for that year in accordance with OMB Circular A-133 issued June 30, 1997, and any subsequent revision or amendment. All 310 Boards are responsible for reviewing these audits in compliance with OMB Circular A-133 , Subpart D, Section 400 (d) and notifying DMH/MR Contracts & Grants Accounting of any audit findings reported in subrecipient audits that relate to DMH/MR funding that was paid to the 310 Board and passed on to the 310 Board subrecipients.

- c. **For-profit entities.** Such entities are normally considered vendors and usually are not required to have an audit under DMH/MR's Audit Guidelines. However, such entities shall comply with Section 5 (Records Retention Requirement).

OMB Circular A-133 also requires DMH/MR to establish requirements to ensure program compliance by for-profit subrecipients. This may include pre-award audits, monitoring during the contract/grant/agreement, and/or post-award audits. Unless the Federal Legislation that established the activity/program exempts the funding from audit/review, Sections 10, and 12 through 20 (inclusive) of these guidelines shall also apply when \$300,000 or more is paid through DMH/MR to a for-profit subrecipient entity during the entity's fiscal year. As such, an audit for compliance (see Section 12) may be required to be submitted to DMH/MR by for-profit subrecipient entities in this situation.

- d. Depending upon the respective funding source, **the following may also be re-**

quired of all entities:

- (1) **A Statistical Data Report** for providers who receive MR/DD Waiver Medicaid funding, as required by the Alabama Medicaid Agency. (Note: there is no funding threshold for this requirement); and
- (2) **On-site review(s)** by DMH/MR that includes but is not limited to eligibility, life safety, programmatic, and financial areas.

- e. **Non 310 Board Entities that expend less than \$100,000** obtained from or through DMH/MR shall not be required to have an audit. However, DMH/MR reserves the right to perform on-site reviews and/or have DMH/MR funds audited (including matching funds) if deemed necessary by means and requirements deemed appropriate by DMH/MR. Such entities must comply with the record retention requirements described in Section 5.
- f. DMH/MR contracts, grants, agreements, Audit Guidelines, etc., do not supersede any Federal or State law, Administrative Code, regulation or policy. Additionally, DMH/MR contracts, grants, agreements, Audit Guidelines, etc., do not commit resources not specifically delineated or specifically shown as funded.
- g. **All entities required to have an audit under these Guidelines shall provide a copy to the State of Alabama, Examiners of Public Accounts, Audit Report Repository, PO Box 302251, Montgomery, AL 36130-2251 (see Act 94- 414, Alabama Legislature)**

5. **Records Retention and Access Requirements.** Entities that receive or expend funds through DMH/MR, regardless of funding source or amount, shall maintain and make available any and all books, papers, records, correspondence, and any other supporting documentation directly relevant to the services provided or the source and application of grant funds, including, but not limited to audit related working papers, for at least three fiscal years beyond the end of the year in which the records were created (e.g., the date the audit was issued) or until completion and resolution of any related issues that may arise, whichever is longer. This supporting documentation shall be readily available to DMH/MR, Examiners of Public Accounts, Federal auditors, etc., upon request.

6. **Audit Guidance and Reference Documents.** The audits required by Section 4 shall also be made in accordance with these Guidelines and the standards in effect for the respective audit year(s). For example:

- a. Auditing and Reporting Standards for Audits of Public Mental Health Centers (and any subsequent revisions) published by the Alabama Department of Examiners of Public Accounts;
- b. Government Auditing Standards (Yellow Book) issued by the Comptroller General of the United States;
- c. The Single Audit Act of 1996 (Public Law 104-156), as amended;

- d. OMB Circular A-133: Audits of States, Local Governments, and Non-Profit Organizations;
- e. Applicable OMB cost principle circular(s); e.g., A-21, A-87, A-122;
- f. Grants Management Common Rule (GMCR) published March 11, 1988, and amended April 19, 1995, by OMB;
- g. OMB Circular A-110: Uniform requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations;
- h. OMB Compliance Supplement;
- i. Applicable standards issued by the FASB, GASB, and the AICPA; and
- j. State of Alabama Medicaid Agency Administrative Code, regulations, policies, fiscal procedures, etc.

7. **Auditor Procurement**. In those instances where the State Examiners of Public Accounts or DMH/MR auditors do not perform the audit, the procurement procedures for audits of Federal financial assistance shall follow the procurement standards prescribed by the Grants Management Common Rule (GMCR), Circular A-110, Uniform Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations, or the Federal Acquisition Regulation (48 CFR part 42), as applicable. Whenever possible, entities (auditees) shall make positive efforts to use small businesses, minority-owned firms, and women's business enterprises, in procuring audit services as stated in GMCR, OMB Circular A-110, or the FAR (48 CFR part 42), as applicable. In accordance with OMB Circular A-133, restrictions as related to auditor indirect cost proposal/plan, and/or cost allocation plans do apply for audits of fiscal years beginning after June 30, 1998.

8. **Audit Contract/Engagement Letter**. Every entity required to have an audit must enter into a formal written contract or an audit engagement letter with the auditor that references these Audit Guidelines and specifies the type(s) of audit(s) to be performed. In addition, each contract or engagement letter must, as a minimum, address the following items:

- a. Retention and access to working papers for review (e.g., by DMH/MR, the Alabama Examiners of Public Accounts, Federal auditors) for a minimum of three years from the date of the audit report unless DMH/MR notifies the auditor in writing to extend the retention period;
- b. An indication that the audit/report will be completed and available for submission to DMH/MR by the required due date;
- c. Items, if any, to be submitted to DMH/MR with the audit/report;
- d. Distribution of the audit/report;

- e. Reports, copies, schedules, etc., expected by the auditor from the entity/auditee; and
- f. Projected cost of the audit and auditee responsibilities.

9. **Audit Reports.** The reporting requirements contained in the applicable documents listed in Section 6 above shall be used as appropriate by the entity's auditors when preparing and completing audits/reports.

10. **Due Date/Submittal of Audits/Reports.** It is the entity's sole responsibility to submit properly prepared and completed audits/reports in accordance with applicable Federal and State laws and regulations and DMH/MR requirements. Except for Medicaid Statistical Data reports, all audits are due within one month of issuance and are **preferred** within six months after an entity's fiscal year ends. However, the **final deadlines** for submission are as indicated below:

- a. Medicaid's Statistical Data Reports are due to the State Medicaid Agency by December 31st.
- b. According to the Single Audit Act (July 1996), single audits **must be delivered to DMH/MR within one month of issuance and no later than nine (9) months** after the end of the entity's fiscal year for fiscal year. This is the requirement even if the audit must be reviewed and/or approved by some other entity. DMH/MR cannot grant extensions to auditees that are subject to the Single Audit Act of 1996.
- c. All other audits (e.g., "Yellow Book," stand alone DMH/MR Contract Compliance Reports) are due one month after issuance and are preferred within six months after the entity's fiscal year ends. They **must be received** by DMH/MR within nine months (e.g., March 31 for fiscal years that end June 30 or June 30 for fiscal years that end on September 30).
- d. As required by the Examiners of Public Accounts, **all 310 Board audits/reports must be first** submitted to the Examiners of Public Accounts and released by the Examiners of Public Accounts (i.e., to 310 Board members and to DMH/MR).

Two (2) complete copies of the final issued audit(s), DMH/MR Contract Compliance Report(s), and summary of prior audit findings shall be submitted directly to DMH/MR's Contracts & Grants Accounting section **within 30 days after issuance of the auditor's report(s)** to the entity **and in accordance with applicable deadlines.** As delineated in OMB Circular A-133, the entity is responsible for follow-up and corrective actions on all audit findings. As part of this responsibility, the entity shall prepare and submit the summary schedule of prior audit findings as delineated in OMB Circular A-133.

See Section 15 for the requirements of a Corrective Action Plan.

See Section 16 for sanctions which may be imposed for noncompliance with these Audit Guidelines. In addition to sanctions, late or non-delivery of an audit/report may

require DMH/MR to initiate fiscal and/or, programmatic site reviews and analyses of the entity.

DMH/MR cannot authorize extension of deadlines relative to Federal requirements.

Requests for an extension of the due date or an abatement of sanctions for delinquent reports, audits, Corrective Action Plans, etc., that are required solely by DMH/MR and not part of any Federal requirement, shall be forwarded to DMH/MR's Contracts and Grants Accounting Section for review and recommendation to the Commissioner. If an abatement or an extension of a sanction is desired, the entity should submit its written request at least one month prior to the due date. The Commissioner may provide a written extension to a DMH/MR imposed due date and/or sanction for reasonable cause as allowable within State of Alabama Laws and regulations. Sanctions and the impact of sanctions (e.g., interest incurred by an entity because it had to borrow funds) are neither billable to nor reimbursable by/through DMH/MR from any funding source.

All entities (i.e., subrecipients) that expend more than **\$500,000** of Federal financial assistance during any fiscal year shall submit to the central clearinghouse designated by OMB one copy of the reporting package(s) as described in OMB Circular A-133. The address of the central clearinghouse currently designated by OMB is:

Federal Audit Clearinghouse
Bureau of the Census
1201 E. 10th Street
Jeffersonville, IN 47132

11. **Documentation of Compliance with Government Auditing Standards.** It is the responsibility of each entity subject to Government Auditing Standards to ensure that the auditor who performs the audit has met the:
- a. Continuing education requirements as defined in Government Auditing Standards (Yellow Book); and
 - b. Quality control requirements defined in Government Auditing Standards (Yellow Book).

It is suggested that the entity (auditee) obtain a certified statement from its auditor along with the required audit/report that the auditor had complied with this requirement as of the audit report date. If it is later determined that the auditor was not in compliance with this requirement, the report submitted to DMH/MR shall be null and void. As such, the entity shall not have met the applicable reporting requirements.

12. **Audit for Compliance with the Contract.** The auditor is required to determine whether the auditee has complied with the DMH/MR contract, grant, or agreement, Provider Agreement (if any), the State Ethics Law, and all applicable Federal, State, and Local laws, regulations, and fiscal and programmatic policies/procedures. This includes determining and reporting whether amounts billed/claimed/received as cost based or reimbursement were less than or equal to the entity's actual, necessary, reasonable, and eligible costs as delineated by the respective contract, and the

MR/DD Waiver Fiscal Procedures Manual (if applicable).

To provide specific assurance that the entity did comply with all applicable laws, regulations, fiscal policies/procedures, the audit report shall include a **Report on Compliance with the DMH/MR Contract(s)**. This report shall include:

a. **Use of one or both (if necessary) of the two attached DMH/MR formats is required.** Each DMH/MR contract, grant, and/or agreement number for that fiscal year shall be listed;

b. A list of all the entity's Officers and Board Members (by name and position) during the reporting period of the entity;

A list of all the Officers and Board Members (by name and position) of all of the auditee's subcontractors that received \$25,000 or more of funds passed through from DMH/MR to the subcontractor during the reporting period. See required format (attached); and

As part of the required assurance, **the auditor shall, as a minimum**, select, test, review, and analyze a representative number of charges from the total DMH/MR funded universe for the respective contracts. Selection and testing of transactions shall be based on the auditor's professional judgment. **In testing the transactions, the auditor shall determine whether the entity:**

- a. **Had a correct, eligible, and appropriate cost allocation plan** that was written and on file no later than the end of the period being audited (if applicable);
- b. **Included only charges that are legitimate for the contract.** This means that amounts charged are (a) allowable, necessary, and reasonable, (b) in accordance with client eligibility criteria, (c) in accordance with the written cost allocation plan, (d) in compliance with the DMH/MR contractual terms and conditions, (e) in compliance with applicable Federal, State and Local Laws and regulations [e.g., Federal grant regulations, OMB Circular A-21, A-87, A-122, A-110, Grants Management Common Rule (GMCR), Medicaid policies and regulations]; and
- c. **Included only charges that are properly recorded**, provide an audit trail that is properly **supported by documentation, and are supported by the client records.**

In addition to the above transaction testing, the auditor shall also determine whether:

- a. **Amounts invoiced or used for matching, are in compliance with** applicable OMB Cost Principles (e.g., A-21, A-87, A-122), Grants Management Common Rule (GMCR), A-110, contractual terms and conditions, and program regulations (i.e., Medicaid rules/policies, etc);
 - 1. **Sufficient, allowable match was available to match federal funds received,**
 - 2. **Matching funds claimed as Certified Public Expenditures from other**

governmental entities are traceable to the client's accounting records with documentation of actual cash receipts,

3. Provider related donations are not claimed as Medicaid match.

- b. Financial reports and claims for advances and/or reimbursements are (1) supported by the entity's books and records from which the basic financial statements have been prepared, and (2) that the entity's reports, claims, books, records, etc., are in accordance with the applicable/required accounting and related principles (e.g., Medicaid's MR/DD Waiver Manual, GAAP, accrual accounting);
- c. Amounts collected were in excess of actual, allowable, eligible, or reasonable costs, amounts over collected were materially in excess of the amounts due, or amounts were in excess of the required, posted, and/or available matching funds. Note: material over collections shall be reported as instance(s) of material noncompliance and shall subject the entity to DMH/MR sanctions.
- d. If required by ethics regulations, codes of conduct, funding source(s), and/or contractual terms and conditions, the entity has an appropriate and enforced conflict of interest policy. Audits of entities subject to the State of Alabama Ethics Law (i.e., 310 Boards, universities, etc.) will report violations of the ethics law as noncompliance;
- f. All related party transactions are disclosed in accordance with SAS No. 45 (AU 334.09), and properly classified as allowable or unallowable costs in accordance with the applicable OMB Cost Principles.(e.g., OMB Circulars A-21, A-87, A-122,);
- g. The entity has implemented or is in the process of implementing an adequate system of internal controls in the financial management of funds and property related to the DMH/MR contracts, grants, and/or agreements; and
- h. **The entity has adequate internal control over client funds and maintains documentation to support expenditures and revenues related to client funds. (Effective for fiscal years beginning on or after October 1, 2004)**
- i. The entity has implemented or is in the process of implementing an Internal Compliance Program relative to federal funding received through DMH/MR contracts, grants, and/or agreements.

- 13. Audit Findings, Questioned Amounts, and/or Practices Resolution.** Entities are responsible for resolving audit findings, questioned costs (e.g., amounts received in excess of authorized/eligible costs, fees, expenses/expenditures), practices, etc., in accordance with applicable laws and regulations (e.g., Single Audit Act, OMB Circular A-133, Medicaid requirements,), and/or to DMH/MR's satisfaction within six (6) months from the issue date of the respective report(s).

This same responsibility and resolution period apply to the entity for any/all audit findings, questioned amounts, and/or practice of the entity's subcontractors/recipients that received funds through any DMH/MR contract, grant, and/or agreement. DMH/MR has

oversight responsibility to coordinate and ensure that all audit findings and questions that could or do affect DMH/MR funding are satisfactorily resolved within the required time limit. The Commissioner has final authority only within DMH/MR on the resolution of all audit findings.

14. Disallowed Amounts, Questioned Practices, and/or Charge Backs.

- a. In instances where an entity cannot document the necessity, eligibility, reasonableness, or allow ability of cited or questioned amounts or practices that will meet applicable Federal and/or, State laws, rules, and/or regulations, DMH/MR will disallow such amounts or practices.
- b. Required refunds may not be charged as an expense/expenditure to any Federal program.
- c. Programmatic areas are to report noncompliance or suspected noncompliance to the Commissioner's Office within one month.
- d. Charge backs, penalties, sanctions, etc., as related to DMH/MR State funds may be reduced or eliminated only by the Commissioner, in writing, for reasonable cause. Federal chargebacks can only be eliminated by the responsible Federal agency.
- e. Sanctions include but are not limited to those listed in Section 16. If a chargeback or an imposed sanction is not handled to DMH/MR's satisfaction within sixty (60) days of the occurrence or due date, additional sanctions may be imposed.
- f. Additionally, amounts billed as cost based or reimbursements that are in excess of actual, necessary, reasonable, and eligible cost in accordance with applicable laws, regulations, contractual terms and conditions, and fiscal procedures are not allowed and must be refunded to DMH/MR. Such overcollections shall subject the entity to DMH/MR sanctions as delineated in these Audit Guidelines.
- g. DMH/MR contracts, grants, agreements, Audit Guidelines, etc., cannot and do not supersede any Federal, State or Medicaid law, Administrative Code, regulation, policy, or procedure. These Guidelines and DMH/MR contracts, grants, or agreements, do not authorize any over collection of any funds. The auditor shall report a material over collection (see Section 19, for the definitions) as instance(s) of material noncompliance.
- h. Since entities are accountable and responsible for their subcontractor(s)/subgrantee(s), sanctions are also applicable to entities relative to its subcontractor(s)/subgrantee(s).

- 15. Corrective Action Plans.** As stated in section 10 (Due Date/Submittal of Audits/-Reports), corrective action plans shall accompany audits/reports. This plan shall be delineated on the entity's stationary and signed by the appropriate entity official. The corrective action plan shall be in accordance with applicable laws, regulations, and/or

these guidelines and shall include a plan of corrective actions taken or planned on all audit findings with a date of implementation or estimated completion of the corrective actions, and name(s) of the contact person(s) responsible for the corrective action.

Late delivery of a corrective action plan and/or failure to complete corrective actions as required (including on time) shall be considered as instance(s) of noncompliance. Sanctions (including the withholding of current funds) will be considered and may be implemented as determined by the Commissioner for noncompliance. See Section 16 for additional information about sanctions.

16. Sanctions.

a. DMH/MR may apply sanctions for the following instances of noncompliance:

- (1)** Failure to remit disallowed charges;
- (2)** Noncompliance with applicable federal and state laws, regulations, policies, procedures, including the DMH/MR Audit Guidelines;
- (3)** Noncompliance with contractual terms and conditions (including the Provider Agreement);
- (4)** Noncompliance with terms of the Commissioner's written decision(s); or
- (5)** The collection of material amounts of revenue in excess of allowable expenses.

b. Possible sanctions include, but are not be limited to:

- (1)** Exclusion from participation in any/or all programs or funding through MH/MR;
- (2)** Termination of current DMH/MR contracts, grants, and/or agreements, or a portion thereof;
- (3)** Suspension of funding or payments relative to any or all DMH/MR contracts, grants, and/or agreements;
- (4)** Reduction of current funding or payments for disallowances, material overcollections of revenue, and/or charge backs. This includes amounts paid to an entity for a sub-entity;
- (5)** Suspension of funding and/or payments until correct reports are received;
- (6)** Disallowance of overhead costs;
- (7)** Require that all excess amounts be refunded, reduce DMH/MR State funding, and/or require continuation of level services.

(8) Report findings, charge backs, sanctions, etc., to Federal and/or State agencies;

(9) Initiate appropriate legal action; and

(10) Submission of the names of entities and principal parties to the applicable Federal grantor agencies, recommending that these names should be included in the US General Services Administration's publication Lists of Parties Excluded From Federal Procurement or Non-procurement Programs.

c. Any federal program that has specific requirements regarding sanctions will require compliance with those sanction procedures in lieu of, or in addition to, those requirements, as applicable on a case-by-case determination by DMH/MR.

17. **DMH/MR Auditors and Other Auditors.** Nothing contained in these Audit Guidelines shall be construed to mean that DMH/MR cannot utilize its own auditors or request assistance from others (e.g., a CPA, a CPA firm, the State of Alabama Examiners of Public Accounts, Alabama Medicaid Agency, Federal auditors) regarding audits of DMH/MR funding.

18. **Federal Audits and Evaluations.** Nothing contained in these audit Guidelines shall be construed to limit the authority of Federal agencies to make, or contract for, audits and evaluations of federally funded programs; nor do they limit the authority of any Federal agency Inspector General or other Federal audit official.

19. **Definitions.** For purposes of these Audit Guidelines, the following definitions apply:

- a. **Federal Award** means Federal Financial Assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, under grants or contracts, used to buy goods or services from vendors.
- b. **DMH/MR funding, funds, or monies** include all funds received directly or indirectly by any entity from or through DMH/MR.
- c. **Recipient or Subrecipient** means any person, contractor, subcontractor, or government department, agency, establishment, or entity that receives Federal or State financial assistance to carry out a program, but does not include an individual that is a beneficiary of such assistance.
- e. **Contractor or entity** means any grantee, subgrantee, contractor, individual, agency, corporation, group, partnership, vendor, provider, association, etc., that receives funding through any DMH/MR contract, grant, or agreement.
- f. **Subcontractor or sub-entity** means any individual, group, entity, vendor, etc., that receives DMH/MR funding for services through an entity paid through a

DMH/MR contract, grant, agreement.

- g. Compliance Supplement** refers to the Circular A-133 Compliance Supplement included as Appendix B to OMB Circular A-133.
- h. Generally Accepted Government Auditing Standards** means the most recent Government Auditing Standards (i.e., “Yellow Book”), issued by the Comptroller General of the United States and any subsequent revisions.
- i. Grants Management Common Rule (GMCR)** published March 11, 1988, amended April 19, 1995, and any subsequent revisions issued by OMB. This is also referred to as the “Common Rule.” or Uniform Administrative Requirements for Grants and Agreements with States and Local Governments.
- j. OMB Circular No. A-110** means Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations and any subsequent revisions issued by OMB.
- k. OMB Circular No. A-21** means Cost Principles for Educational Institutions and any subsequent revisions issued by OMB.
- l. OMB Circular No. A-87** means Cost Principles for State and Local Governments and any subsequent revisions issued by OMB.
- m. OMB Circular No. A-122** means Cost Principles for Non-profit Organizations and any subsequent revisions issued by OMB.
- n. OMB Circular No. A-133** means Audits of States, Local Governments, and Non-Profit Organizations and any subsequent OMB revision(s).
- o. Generally Accepted Auditing Standards (GAAS)** means those audit standards set forth in the American Institute of CPA’s (AICPA) Statements on Auditing Standards (SAS).
- p. Generally Accepted Accounting Principles (GAAP)** means those rules and procedures established by the AICPA and other authoritative bodies.
- q. Commissioner or state mental health officer** means the Commissioner, Acting Commissioner, and/or Commissioner’s designee of the Alabama Department of Mental Health and Mental Retardation (DMH/MR).
- r. EDS/Medicaid** means the Alabama Medicaid Agency and/or its fiscal agent (currently Electronic Data Systems -- EDS).
- s. Corrective Action** means action taken by the entity/auditee that:

 - (1) Corrects identified deficiencies;
 - (2) Produces recommended improvements; or
 - (3) Demonstrates that audit findings are either invalid or do not warrant action by the auditee.

20. Contacts. Any questions or comments should be addressed to: Contracts & Grants Accounting:

Contracts & Grants Accounting
Alabama Department of Mental Health
and Mental Retardation
PO Box 301410
Montgomery, AL 36130-1410
334-242-3992

ALABAMA DEPARTMENT OF MENTAL HEALTH & MENTAL RETARDATION

AUDIT REQUIREMENTS FOR FISCAL YEARS **ENDING AFTER 12/31/2003**

TYPES AND AMOUNTS OF FUNDS EXPENDED BY CONTRACTOR WHICH WERE RECEIVED FROM/THROUGH DMH/MR	TYPE OF ENTITY	A-133 AUDIT	YELLOW BOOK AUDIT (3)	DMH/MR CONTRACT COMPLIANCE AUDIT	MEDICAID STATISTICAL DATA REPORT MR/DD WAIVER SERVICES (4)	NO AUDIT (5)
MEDICAID, STATE, AND/OR OTHER FEDERAL FUNDS TOTAL LESS THAN \$100,000	310 BOARD OTHER		X		X X	 X
MEDICAID, STATE, AND/OR FEDERAL FINANCIAL ASSISTANCE FUNDS TOTALING AT LEAST \$100,000, BUT IS LESS THAN \$300,000	310 BOARD OTHER		X	X X	X X	
MEDICAID, STATE, AND/OR FEDERAL FINANCIAL ASSISTANCE FUNDS TOTALING \$300,000 OR MORE, AND THE FEDERAL FINANCIAL ASSISTANCE IS LESS THAN \$500,000 .	310 BOARD OTHER		X X	X X	X X	
MEDICAID, STATE, AND/OR OTHER FEDERAL FUNDS TOTALING \$300,000 OR MORE AND THE FEDERAL FINANCIAL ASSISTANCE TOTALS \$500,000 OR MORE	310 BOARD OTHER	X X	X X	X X	X X	

NOTES:

- (1) MEDICAID FUNDS ARE NOT CONSIDERED FEDERAL FINANCIAL ASSISTANCE. AS SUCH, **MEDICAID FUNDS ARE NOT INCLUDED WHEN CALCULATING THE \$500,000** OR MORE OF FEDERAL FINANCIAL ASSISTANCE.
- (2) THIS CHART DELINEATES DMH/MR AUDIT REQUIREMENTS. ENTITIES MUST CONSIDER ALL THE TYPES OF FUNDS RECEIVED FROM ALL SOURCES BEFORE DETERMINING THE TYPE OF AUDIT REQUIRED.
- (3) AS REQUIRED BY THE ALABAMA EXAMINERS OF PUBLIC ACCOUNTS, ALL 310 BOARDS MUST SUBMIT , **AT A MINIMUM**, AN AUDIT IN COMPLIANCE WITH GOVERNMENT AUDITING STANDARDS (YELLOW BOOK AUDIT). SEE SECTION 4(b).
- (4) ALL MR/DD WAIVER CONTRACTORS ARE REQUIRED TO SUBMIT STATISTICAL DATA REPORTS TO THE ALABAMA MEDICAID AGENCY. REFER TO ALABAMA AGENCY POLICIES AND REGULATIONS FOR SUBCONTRACTOR REPORTING REQUIREMENTS, AS RELATED TO SDRS.
- (5) SEE SECTION 4(e).

**REPORT ON COMPLIANCE WITH DEPARTMENT OF MENTAL HEALTH/
MENTAL RETARDATION CONTRACT WHEN THE AUDITOR'S PROCEDURES
DISCLOSE NO MATERIAL INSTANCES OF NONCOMPLIANCE**

(Addressee)

We have audited contract/grant/agreement numbers _____ between the Department of Mental Health/ Mental Retardation (DMH/MR) and (name of organization) as of and for the year ended _____.

Compliance with DMH/MR contract(s)/grant(s)/agreement(s), and all laws, rules, and regulations applicable to (name of organization) is the responsibility of (name of organization's) management. As part of obtaining reasonable assurance about whether the contract/grant/agreement, and all applicable laws, rules, and regulations were complied with, we performed certain tests of transactions and made other determinations as outlined in each requirement of Section 12, Audit for Compliance with the Contract of the DMH/MR Audit Guidelines. Revenues and expenditures were analyzed to determine if they were in compliance with applicable terms and conditions of the contract/grant/agreement. Funds claimed as match for federal programs were audited to determine if they were allowable and adequate to match the federal funds received.

The results of our tests disclosed no material instances of noncompliance with the DMH/MR contract/grant/agreement and all applicable laws, and regulations,

This report is intended for the information of management and DMH/MR. However, this report is a matter of public record and its distribution is not limited.

(Signature)

(Date)

**REPORT ON COMPLIANCE WITH DEPARTMENT OF MENTAL HEALTH/
MENTAL RETARDATION CONTRACT WHEN THE AUDITOR'S PROCEDURES
DISCLOSE MATERIAL INSTANCES OF NONCOMPLIANCE**

(Addressee)

We have audited contract/grant/agreement numbers _____ between the Department of Mental Health/Mental Retardation (DMH/MR) and (name of organization) as of and for the year ended _____.

Compliance with DMH/MR contract(s)/grant(s)/agreement(s), Provider Agreement and all laws, rules, and regulations applicable to (name of organization) is the responsibility of (name of organization's) management.

As part of obtaining reasonable assurance about whether the contract/grant/agreement, and all applicable laws, rules, and regulations were complied with, we performed certain tests of transactions and made other determinations as outlined in each requirement of Section 12, Audit for Compliance with the Contract of the DMH/MR Audit Guidelines. Revenues and expenditures were analyzed to determine if they were in compliance with applicable terms and conditions of the contract/- grant/agreement. Funds claimed as match for federal programs were audited to determine if they were allowable and adequate to match the federal funds received.

The results of our tests disclosed the following material instances of noncompliance:

(Include paragraph(s) describing the material instance(s) of noncompliance noted.)

This report is intended for the information of management and DMH/MR. However, this report is a matter of public record and its distribution is not limited.

(Signature)

(Date)

**SUPPLEMENTARY SCHEDULE REQUIRED BY
THE ALABAMA DEPARTMENT OF MENTAL HEALTH AND MENTAL REATARDATION**

OFFICERS AND BOARD MEMBERS

(PROVIDER NAME)

PERIOD OF REPORT

NAME

OFFICIAL TITLE

**SUPPLEMENTARY SCHEDULE REQUIRED BY
THE ALABAMA DEPARTMENT OF MENTAL HEALTH AND MENTAL REATARDATION**

(PROVIDER NAME)

**NAME OF PROVIDER'S SUBCONTRACTOR
SUBCONTRACTOR OFFICERS AND BOARD MEMBERS**

PERIOD OF REPORT

NAME

OFFICIAL TITLE